

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

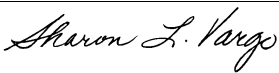
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

**Charter Township of East Bay
Grand Traverse County, Michigan**

**Financial Report
with Supplemental Information
December 31, 2006**

Charter Township of East Bay

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Independent Auditor's Report

To the Township Board
Charter Township of East Bay

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Charter Township of East Bay as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Charter Township of East Bay's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Charter Township of East Bay as of December 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Township Board
Charter Township of East Bay

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Charter Township of East Bay's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

April 17, 2007

Charter Township of East Bay

Management's Discussion and Analysis

Our discussion and analysis of Charter Township of East Bay, Grand Traverse County, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2006:

- Total net assets related to the Township's governmental activities increased by approximately \$548,000.
- The fund balance in the General Fund increased by approximately \$129,000, increasing fund balance to approximately \$293,000 from the prior year fund balance of approximately \$164,000.
- Property tax revenue in the Township's governmental activities increased by approximately \$99,000.
- Charges for services revenue in the Water and Sewer Fund decreased by approximately \$48,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 2,371	\$ 1,815	\$ 2,438	\$ 1,881	\$ 4,809	\$ 3,696
Noncurrent assets	<u>2,862</u>	<u>2,581</u>	<u>13,725</u>	<u>13,918</u>	<u>16,587</u>	<u>16,499</u>
Total assets	5,233	4,396	16,163	15,799	21,396	20,195
Liabilities						
Current liabilities	1,418	1,212	689	635	2,107	1,847
Long-term liabilities	<u>421</u>	<u>338</u>	<u>6,995</u>	<u>7,340</u>	<u>7,416</u>	<u>7,678</u>
Total liabilities	<u>1,839</u>	<u>1,550</u>	<u>7,684</u>	<u>7,975</u>	<u>9,523</u>	<u>9,525</u>
Net Assets						
Invested in capital assets - Net of related debt	1,173	1,215	6,136	6,054	7,309	7,269
Restricted	598	474	-	-	598	474
Unrestricted	<u>1,623</u>	<u>1,157</u>	<u>2,343</u>	<u>1,770</u>	<u>3,966</u>	<u>2,927</u>
Total net assets	<u>\$ 3,394</u>	<u>\$ 2,846</u>	<u>\$ 8,479</u>	<u>\$ 7,824</u>	<u>\$ 11,873</u>	<u>\$ 10,670</u>

The Township's combined net assets increased 11 percent from a year ago, increasing from \$10,683,313 to \$11,872,888. As we look at the governmental activities separately from the business-type activities, we can see that the net assets of the governmental activities increased by approximately \$548,000 and net assets of business-type activities increased by approximately \$655,000.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by approximately \$466,000 for the governmental activities. This represents an increase of 40 percent. The current level of unrestricted net assets for our governmental activities stands at \$1,622,618, or about 91 percent, of expenditures.

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year and as compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 338	\$ 369	\$ 2,021	\$ 2,069	\$ 2,359	\$ 2,438
Operating grants and contributions	-	101	-	59	-	160
General revenue:						
Property taxes	1,112	1,013	-	-	1,112	1,013
State-shared revenue	680	677	-	-	680	677
Unrestricted investment earnings	62	28	51	22	113	50
Franchise fees	68	44	-	-	68	44
Other revenue	81	64	52	43	133	107
Total revenue	2,341	2,296	2,124	2,193	4,465	4,489
Program Expenses						
General government	740	990	-	-	740	990
Public safety	853	904	-	-	853	904
Public works	141	126	-	-	141	126
Recreation and culture	46	54	-	-	46	54
Interest on long-term debt	13	14	-	-	13	14
Water and sewer	-	-	1,469	1,615	1,469	1,615
Total program expenses	1,793	2,088	1,469	1,615	3,262	3,703
Change in Net Assets	\$ 548	\$ 208	\$ 655	\$ 578	\$ 1,203	\$ 786

Governmental Activities

The Township's property tax revenue increased by approximately \$99,000 due to increased property tax values. Unrestricted investment earnings increased by approximately \$34,000 due to increased cash balances in 2006 and investing more cash in the bank investment pool. Operating grants and contributions decreased approximately \$101,000 due to receiving a contribution from the Water and Sewer Fund in the prior year.

Overall, the Township decreased spending in some areas. General government expenditures decreased by approximately \$250,000 related to attorney and accounting fees in 2005 investigating fraud activities (as discussed further on page 7) and reduced employee fringe benefits (insurance, pension, etc.) as a result of fewer employees in 2006. The fee for the public safety labor contract paid to the joint venture increased during 2006 and was offset by recognizing joint venture income in 2006, resulting in a net decrease of approximately \$51,000.

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund. The Grand Traverse County Department of Public Works (GTDPW) provides water services to the residents of Grand Traverse County, including East Bay Charter Township. GTDPW bills the residents for these services and passes the related funds on to the Township. Revenue and expenses from the sale of water was \$1,033,000 and \$338,000, respectively, in 2006.

The Township entered into a master sewer agreement with the City of Traverse City and various townships in Grand Traverse and Leelanau Counties, as well as Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all the multi-user facilities. The Township pays an amount sufficient to cover its pro rata share of treatment plant costs, as determined by its volume of sewage treated in relation to total sewage treated at the plant. The Township's revenue and expenses from sewage disposal were \$987,000 and \$343,000, respectively, in 2006.

Additional costs incurred in relation to both water and sewer included depreciation expense of \$360,000 and interest expense of \$408,000. In total, revenues exceeded expense for the combined Water and Sewer Fund by \$655,000 primarily due to increased water and sewer rates and usage by the Township residents.

The Township's Funds

Our analysis of the Township's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2006 include the General Fund and the Fire Fund.

General Fund Budgetary Highlights

There were no significant variations between original and final budget amounts other than an increase in other income by \$75,000 due to the final recovery of fraud damages. Actual revenue was \$33,000 less than budgeted revenue. Actual expenditures were \$72,000 more than budgeted primarily due to the Prouty Road/Lands End project costs. There was adequate fund balance to cover the excess actual expenditures and, therefore, fund balance was \$60,000 less than budgeted at December 31, 2006.

Charter Township of East Bay

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2006, the Township had \$15,357,000 invested in a broad range of capital assets, including buildings, ambulance, fire, compactor equipment, and water and sewer lines. In addition, the Township has invested significantly in roads within the Township and these shared costs have been capitalized, even though these roads are the property of the Grand Traverse County Road Commission.

Economic Factors and Next Year's Budgets

The Township's General Fund budget for next year calls for \$1,344,250 in revenue and \$1,298,129 in expenditures. A decrease in revenue was budgeted related to the fraud recovery in 2006 that will not occur in 2007. The decrease in revenue produced a budgeted decrease in the township board expenditure budget.

There are no new special assessments expected in 2007.

Impact of Fraud

During 2005, fraud was discovered in the clerk's office that impacted the 2004 and 2005 financial results. The investigation is complete and final damages and recoveries of \$124,667 have been collected in 2006.

Management and the board have taken many steps to strengthen the internal controls of the Township. However, the problems encountered in 2004 continued to impact a portion of 2006. The Township is committed to continuing to strengthen controls, protecting the residents' assets, and obtaining reliable financial information on a timely basis.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Charter Township of East Bay

Statement of Net Assets December 31, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and investments (Note 3)	\$ 1,425,037	\$ 1,650,328	\$ 3,075,365
Receivables:			
Property taxes/Special assessments	830,967	671,919	1,502,886
Intergovernmental	115,370	115,271	230,641
Investment in joint venture (Note 10)	1,230,000	-	1,230,000
Capital assets - Nondepreciable (Note 5)	768,104	-	768,104
Capital assets - Depreciable - Net (Note 5)	863,579	13,725,424	14,589,003
Total assets	5,233,057	16,162,942	21,395,999
Liabilities			
Accounts payable	48,792	75,283	124,075
Accrued and other liabilities	12,028	58,761	70,789
Deferred revenue (Note 4)	1,319,713	-	1,319,713
Noncurrent liabilities (Note 7):			
Due within one year	37,608	554,936	592,544
Due in more than one year	420,576	6,995,414	7,415,990
Total liabilities	1,838,717	7,684,394	9,523,111
Net Assets			
Invested in capital assets - Net of related debt	1,173,499	6,135,290	7,308,789
Restricted for:			
Fire and ambulance services	478,524	-	478,524
Township improvements	119,699	-	119,699
Unrestricted	1,622,618	2,343,258	3,965,876
Total net assets	\$ 3,394,340	\$ 8,478,548	\$ 11,872,888

Charter Township of East Bay

Statement of Activities Year Ended December 31, 2006

		Revenues	Net (Expense) Revenue and Changes in Net Assets		
			Primary Government		
		Charges for	Governmental	Business-type	
	Expenses	Services	Activities	Activities	Total
Functions/Programs					
Primary government:					
Governmental activities:					
General government	\$ 739,838	\$ 293,263	\$ (446,575)	\$ -	\$ (446,575)
Public safety	852,675	44,411	(808,264)	-	(808,264)
Public works	141,225	-	(141,225)	-	(141,225)
Recreation and culture	45,583	-	(45,583)	-	(45,583)
Interest on long-term debt	13,054	-	(13,054)	-	(13,054)
Total governmental activities	1,792,375	337,674	(1,454,701)	-	(1,454,701)
Business-type activities - Water and sewer					
	1,467,986	2,020,503	-	552,517	552,517
Total primary government	<u>\$ 3,260,361</u>	<u>\$ 2,358,177</u>	(1,454,701)	552,517	(902,184)
General revenues:					
Property taxes			1,112,450	-	1,112,450
State-shared revenues			679,927	-	679,927
Unrestricted investment earnings			62,453	50,503	112,956
Franchise fees			67,612	-	67,612
Miscellaneous			80,574	51,887	132,461
Total general revenues			2,003,016	102,390	2,105,406
Change in Net Assets			548,315	654,907	1,203,222
Net Assets - Beginning of year			2,846,025	7,823,641	10,669,666
Net Assets - End of year			<u>\$ 3,394,340</u>	<u>\$ 8,478,548</u>	<u>\$ 11,872,888</u>

Charter Township of East Bay

Governmental Funds Balance Sheet December 31, 2006

	General Fund	Fire Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 346,221	\$ 859,117	\$ 219,699	\$ 1,425,037
Receivables:				
Property taxes	300,034	530,933	-	830,967
Intergovernmental	115,370	-	-	115,370
Total assets	<u>\$ 761,625</u>	<u>\$ 1,390,050</u>	<u>\$ 219,699</u>	<u>\$ 2,371,374</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 32,251	\$ 16,541	\$ -	\$ 48,792
Accrued and other liabilities	12,028	-	-	12,028
Deferred revenue (Note 4)	424,728	894,985	-	1,319,713
Total liabilities	469,007	911,526	-	1,380,533
Fund Balances				
Reserved for:				
Fire and ambulance services	-	478,524	-	478,524
Township improvements	-	-	119,699	119,699
Budget stabilization	-	-	100,000	100,000
Unreserved - Reported in General Fund	292,618	-	-	292,618
Total fund balances	292,618	478,524	219,699	990,841
Total liabilities and fund balances	<u>\$ 761,625</u>	<u>\$ 1,390,050</u>	<u>\$ 219,699</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				1,631,683
Joint venture investments used in governmental activities are not financial resources and are not reported in the funds				1,230,000
Long-term liabilities are not due and payable in the current period and are not reported in the funds				(458,184)
Net assets of governmental activities				<u>\$ 3,394,340</u>

Charter Township of East Bay

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2006

	General Fund	Fire Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 320,536	\$ 791,914	\$ -	\$ 1,112,450
Licenses and permits	24,153	-	-	24,153
State-shared revenues	679,927	-	-	679,927
Charges for services	269,110	44,411	-	313,521
Franchise fees	-	-	67,612	67,612
Interest and rentals	27,014	33,211	2,228	62,453
Other	80,574	-	-	80,574
Total revenue	1,401,314	869,536	69,840	2,340,690
Expenditures				
General government	730,839	-	-	730,839
Public safety	230,865	757,687	-	988,552
Public works	111,334	-	-	111,334
Recreation and culture	21,553	-	-	21,553
Insurance and other	198,243	9,034	500	207,777
Debt service	-	-	39,660	39,660
Total expenditures	1,292,834	766,721	40,160	2,099,715
Excess of Revenue Over Expenditures	108,480	102,815	29,680	240,975
Other Financing Sources (Uses)				
Proceeds from debt issuance	120,000	-	-	120,000
Transfer in (out) (Note 6)	(100,000)	-	100,000	-
Total other financing sources	20,000	-	100,000	120,000
Net Change in Fund Balances	128,480	102,815	129,680	360,975
Fund Balances - Beginning of year	164,138	375,709	90,019	629,866
Fund Balances - End of year	<u>\$ 292,618</u>	<u>\$ 478,524</u>	<u>\$ 219,699</u>	<u>\$ 990,841</u>

Charter Township of East Bay

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2006

Net Change in Fund Balances - Total Governmental Funds **\$ 360,975**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year capital additions	189,948
Current year allocation of depreciation	(138,214)

Investment in joint venture income reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	229,000
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	26,606
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Bond proceeds are not reported as financing sources on the statement of activities	<u>(120,000)</u>
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Change in Net Assets of Governmental Activities **\$ 548,315**

Charter Township of East Bay

Proprietary Funds Statement of Net Assets December 31, 2006

	Enterprise Fund - Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 1,650,328
Receivables:	
Special assessments	659,696
Intergovernmental	<u>127,494</u>
Total current assets	2,437,518
Noncurrent assets - Capital assets (Note 5)	<u>13,725,424</u>
Total assets	16,162,942
Liabilities	
Current liabilities:	
Accounts payable	75,283
Accrued and other liabilities	58,761
Current portion of long-term debt (Note 7)	<u>554,936</u>
Total current liabilities	688,980
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	<u>6,995,414</u>
Total liabilities	<u>7,684,394</u>
Net Assets	
Investment in capital assets - Net of related debt	6,135,290
Unrestricted	<u>2,343,258</u>
Total net assets	<u><u>\$ 8,478,548</u></u>

Charter Township of East Bay

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2006

	Enterprise Fund - Water and Sewer Fund
Operating Revenue	
Sale of water/benefit fees	\$ 1,033,059
Sewage disposal charges	987,444
Total operating revenue	2,020,503
Operating Expenses	
Cost of water produced/purchased	338,270
Cost of sewage treatment	342,708
Depreciation	359,947
Other expense	19,096
Total operating expenses	1,060,021
Operating Income	960,482
Nonoperating Revenue (Expense)	
Investment income	50,503
Interest on special assessments	51,887
Interest expense	(407,965)
Change in Net Assets	654,907
Net Assets - Beginning of year	7,823,641
Net Assets - End of year	\$ 8,478,548

Charter Township of East Bay

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2006

	Enterprise Fund - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 2,046,482
Payments to suppliers	<u>(671,457)</u>
Net cash provided by operating activities	1,375,025
Cash Flows from Capital and Related Financing Activities	
Collection of customer assessments (principal and interest)	97,725
Purchase of capital assets	(167,179)
Proceeds from issuance of capital debt	201,000
Principal and interest paid on capital debt	<u>(928,527)</u>
Net cash used in capital and related financing activities	(796,981)
Cash Flows from Investing Activities - Interest received on investments	<u>50,503</u>
Net Increase in Cash and Cash Equivalents	628,547
Cash and Cash Equivalents - Beginning of year	<u>1,021,781</u>
Cash and Cash Equivalents - End of year	<u>\$ 1,650,328</u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 960,482
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	359,947
Changes in assets and liabilities:	
Receivables	25,979
Accounts payable and accrued liabilities	<u>28,617</u>
Net cash provided by operating activities	<u>\$ 1,375,025</u>

Charter Township of East Bay

Fiduciary Funds Statement of Assets and Liabilities December 31, 2006

	<u>Agency Funds</u>
Assets - Cash and cash equivalents (Note 3)	<u><u>\$ 1,008,554</u></u>
Liabilities	
Due to other governmental units	\$ 959,937
Due to others	<u>48,617</u>
Total liabilities	<u><u>\$ 1,008,554</u></u>

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Charter Township of East Bay (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Charter Township of East Bay:

Reporting Entity

Charter Township of East Bay is governed by an elected seven-member board. The accompanying financial statements present the Township only since there are no component units which should be included as part of the Township's reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Fund - The Fire Fund accounts for the operation of the Township fire department and ambulance services. Financing is provided by a special property tax levy.

Charter Township of East Bay

**Notes to Financial Statements
December 31, 2006**

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the results of operations that provide water and sewer services to residents, financed primarily by a user charge for the provision of those services.

Additionally, the Township reports the following fund type:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended December 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the Township totaled \$386,411,740, on which taxes levied consisted of 0.7437 mills for operating purposes. The millage for fire and ambulance services of 2.15 mills is levied on a taxable valuation of \$372,827,740 (real property only). This resulted in approximately \$290,000 for operating and \$792,000 for fire and ambulance services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 for equipment, machinery, and furniture and \$5,000 for building, building improvements, and other improvements, with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15 to 20 years
Water and sewer distribution systems	50 years
Buildings and improvements	15 to 50 years
Vehicles	3 to 5 years
Office furnishings and tools	3 to 7 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Accumulated balance at January 1, 2006		\$	-
Current year building permit revenue	\$	5,880	
Related expenses - Direct costs		(5,880)	-
Accumulated balance at December 31, 2006		\$	-

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated three banks for the deposit of its funds. The investment policy adopted by the board has authorized all of the investments in the state authority as listed above. The Township's deposits and investment policies are in accordance with statutory policy.

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note 3 - Deposits and Investments (Continued)

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$3,802,321 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, \$1,286,338 was held in a bank investment pool.

The bank investment pool is held by the trust department of the bank and regulated by the Michigan Banking Act. The fair value of the position in the bank investment pool is the same as the value of the pooled shares. The bank investment pool is not rated as of December 31, 2006.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At December 31, 2006, the Township had \$1,319,713 in unearned revenue related to property taxes.

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2006	Additions	Balance December 31, 2006
Governmental Activities			
Capital assets not being depreciated - Land	\$ 768,104	\$ -	\$ 768,104
Capital assets being depreciated:			
Roads and sidewalks	-	117,376	117,376
Buildings and improvements	1,068,487	34,988	1,103,475
Vehicles	280,269	-	280,269
Office furnishings and tools	276,000	37,584	313,584
Subtotal	1,624,756	189,948	1,814,704
Accumulated depreciation:			
Roads and sidewalks	-	3,913	3,913
Buildings and improvements	310,900	33,450	344,350
Vehicles	234,129	56,053	290,182
Office furnishings and tools	267,882	44,798	312,680
Subtotal	812,911	138,214	951,125
Net capital assets being depreciated	811,845	51,734	863,579
Net capital assets	<u>\$ 1,579,949</u>	<u>\$ 51,734</u>	<u>\$ 1,631,683</u>
Business-type Activities			
Capital assets being depreciated - Water and sewer distribution systems	\$ 17,913,638	\$ 167,179	\$ 18,080,817
Accumulated depreciation - Water and sewer distribution systems	3,995,446	359,947	4,355,393
Net capital assets	<u>\$ 13,918,192</u>	<u>\$ (192,768)</u>	<u>\$ 13,725,424</u>

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the Township as follows:

Governmental activities:

General government	\$ 40,241
Public safety	61,144
Public works	12,799
Recreation and culture	<u>24,030</u>

Total governmental activities	<u><u>\$ 138,214</u></u>
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Business-type activities:

Water	\$ 79,090
Sewer	<u>280,857</u>

Total business-type activities	<u><u>\$ 359,947</u></u>
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Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of \$100,000 transferred from the General Fund to the Budget Stabilization Fund due to the General Fund's increasing fund balance in 2006.

Note 7 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities							
Installment purchase agreements - Township Hall agreement: Amount of issue: \$415,265 Maturing through December 2010	3.70%	\$27,608 - \$221,483	\$ 364,790	\$ -	\$ (26,606)	\$ 338,184	\$ 27,608
2006 Capital Improvement Bond: Amounts of issue: \$120,000 Maturing through March 2016	4.76%	\$10,000 - \$14,000	-	120,000	-	120,000	10,000
Total governmental activities			<u>\$ 364,790</u>	<u>\$ 120,000</u>	<u>\$ (26,606)</u>	<u>\$ 458,184</u>	<u>\$ 37,608</u>

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Business-type Activities							
Contractual obligations with Grand Traverse County:							
1991 Water and Sanitary Sewer Extension #1							
Special Assessment (#321):							
Amount of issue: \$1,330,000		\$80,000 -					
Maturing through November 1, 2011	6.37%	\$95,000	\$ 520,000	\$ -	\$ (80,000)	\$ 440,000	\$ 80,000
1991 Water and Sanitary Sewer Extension #2							
Special Assessment (#323):							
Amount of issue: \$210,000		\$10,000 -					
Maturing through July 1, 2011	4.77%	\$15,000	65,000	-	(10,000)	55,000	10,000
Sewage Disposal System Series 1994 (#327):							
Amount of issue: \$210,000		\$10,000 -					
Maturing through November 1, 2013	6.04%	\$15,000	95,000	-	(10,000)	85,000	10,000
Sewage Disposal System Series 2002 (#335):							
Amount of issue: \$800,000		\$30,000 -					
Maturing through May 1, 2023	4.08%	\$60,000	710,000	-	(30,000)	680,000	30,000
Sewage Disposal System Bonds Series 1993							
(#325):							
Amount of issue: \$925,000		\$60,000 -					
Maturing through November 1, 2012	5.00%	\$80,000	470,000	-	(55,000)	415,000	60,000
Sewage Disposal System Bonds Series 1995							
(#328):							
Amount of issue: \$3,725,000		\$17,903 -					
Maturing through May 1, 2015	2.62%	\$35,805	192,784	-	(15,154)	177,630	17,903
Sewage Disposal System Bonds Series 1998							
(#330):							
Amount of issue: \$1,565,000		\$11,550 -					
Maturing through May 1, 2013	3.58%	\$14,300	99,223	-	(8,130)	91,093	11,550
Sewage Disposal System Bonds Series 2002							
(#334):							
Amount of issue: \$32,900,000		\$44,071 -					
Maturing through November 1, 2022	3.80%	\$66,720	1,092,643	-	(34,547)	1,058,096	44,071
Water System Improvements Series 2001 (#332):							
Amount of issue: \$1,250,000		\$50,000 -					
Maturing through May 1, 2021	4.66%	\$95,000	1,080,000	-	(45,000)	1,035,000	50,000
Sewer/Water Improvements Bonds Series 2003							
(#336):							
Amount of issue: \$6,745,000		\$137,412 -					
Maturing through November 1, 2023	4.06%	\$234,589	3,119,943	-	(137,412)	2,982,531	137,412
2006 General Obligation Limited Tax Capital							
Improvement Bond:							
Amount of issue: \$201,000		\$9,000 -					
Maturing through April 2021	4.90%	\$18,000	-	201,000	-	201,000	9,000
Installment purchase - Water main extensions:							
Amount of issue: \$660,000		\$50,000 -					
Maturing through June 1, 2011	6.00%	\$65,000	335,000	-	(50,000)	285,000	50,000
Installment purchase - Water system lease							
purchase:							
Amount of issue: \$340,000							
Maturing through February 15, 2007	5.45%	\$45,000	85,000	-	(40,000)	45,000	45,000
Total business-type activities			\$ 7,864,593	\$ 201,000	\$ (515,243)	\$ 7,550,350	\$ 554,936

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 37,608	\$ 17,467	\$ 55,075	\$ 554,936	\$ 321,228	\$ 876,164
2008	38,647	16,249	54,896	534,907	298,389	833,296
2009	40,724	14,696	55,420	546,321	274,625	820,946
2010	263,205	13,053	276,258	581,063	250,624	831,687
2011	12,000	3,713	15,713	605,899	224,286	830,185
2012-2016	66,000	9,663	75,663	1,918,781	783,937	2,702,718
2017-2021	-	-	-	2,117,807	395,446	2,513,253
2022-2026	-	-	-	690,636	39,772	730,408
Total	<u>\$ 458,184</u>	<u>\$ 74,841</u>	<u>\$ 533,025</u>	<u>\$ 7,550,350</u>	<u>\$ 2,588,307</u>	<u>\$ 10,138,657</u>

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits, participates in the Michigan Municipal Underwriters for claims relating to property loss, torts, and errors and omissions, and carries workers' compensation insurance with the Michigan Municipal League. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Defined Contribution Pension Plan

The Township provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The Township contributes 11 percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested immediately.

The Township's total payroll during the current year was \$459,807, made up of \$344,076 from General Fund and \$115,731 from Fire Fund. The current year contribution was calculated based on covered payroll of \$337,782, including \$280,687 from the General Fund and \$57,095 from the Fire Fund. This resulted in an employer contribution of \$30,876 for the General Fund and \$6,280 for the Fire Fund. There were General Fund employee contributions of \$6,407.

Charter Township of East Bay

Notes to Financial Statements December 31, 2006

Note 10 - Joint Venture

The Township entered into a master sewer agreement effective July 1, 1987 through June 30, 2010 with the City of Traverse City, the Townships of Acme, Peninsula, and Garfield in Grand Traverse County, the Township of Elmwood in Leelanau County, and Grand Traverse County. This master sewer agreement defines the allocation of costs and establishes certain rights and responsibilities with respect to the wastewater treatment plant. Grand Traverse County is the owner of the treatment plant and the City of Traverse City is the owner of all the multi-user facilities. Ownership of the treatment plant will revert to the City of Traverse City when certain bonds issued by Grand Traverse County are retired.

The City of Traverse City is the exclusive manager of the plant for the benefit of itself and the townships. As the exclusive manager, the City of Traverse City has the obligation to fully inform and advise the townships as to the treatment plant's operation and the townships shall have the right to comment on all matters connected with the administration of the plant.

Each participant in the joint venture pays an amount sufficient to cover their pro rata share of treatment plant costs. Each participant's pro rata share is determined by their volume of sewage treated in relation to total sewage treated at the plant.

The Township is responsible for debt service on the debt issues listed in Note 7 as determined biannually based upon the percentage of the Township's flow to the total flow through the treatment plant. For the biannual period ended December 31, 2006, the Township's percentage was 8.38 percent.

The Township also contributes one mill of its Fire Fund tax levy to the Grand Traverse County Fire Department - Metro Division (Metro). Metro is a joint venture between the Township and Acme and Garfield Townships of Grand Traverse County. The Township's equity interest was 28.5 percent at December 31, 2006. This equity interest is adjusted annually and the 2006 equity interest balance is approximately \$1,230,000.

Note 11 - Contingent Liabilities

From time to time, the Township is party to various lawsuits and claims arising out of the normal conduct of its business. In the opinion of management, the financial position of the Township will not be materially affected by the final outcome of these legal proceedings.

Required Supplemental Information

Charter Township of East Bay

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 289,500	\$ 319,237	\$ 320,536	\$ 1,299
State sources	690,000	690,000	679,927	(10,073)
Fees and permits	18,000	26,000	24,153	(1,847)
Charges for services	278,000	293,588	269,110	(24,478)
Interest income	3,500	26,000	27,014	1,014
Other income	3,300	79,392	80,574	1,182
Total revenues	1,282,300	1,434,217	1,401,314	(32,903)
Expenditures				
General government:				
Township board	135,750	132,930	117,931	(14,999)
Supervisor	50,012	49,012	47,189	(1,823)
Elections	17,200	26,359	26,359	-
Assessor	79,300	75,000	74,213	(787)
Clerk	69,870	87,823	82,183	(5,640)
Board of review	1,525	1,910	1,903	(7)
Treasurer	76,921	76,775	65,035	(11,740)
Township hall and grounds	233,140	223,805	198,650	(25,155)
Public safety:				
Sheriff patrol	128,000	128,000	133,437	5,437
Planning Commission/Board of Appeals	24,110	26,610	24,639	(1,971)
Planner/Zoning administrator	66,855	74,355	72,789	(1,566)
Public works:				
Road projects	45,000	29,628	14,103	(15,525)
Street lights	11,000	11,000	14,904	3,904
Compactor	96,201	89,144	82,327	(6,817)
Recreation and culture	19,750	17,950	21,553	3,603
Insurance and other	217,200	197,731	198,243	512
Total expenditures	1,271,834	1,248,032	1,175,458	(72,574)
Other Financing Sources (Uses)				
Proceeds from debt issuance	-	-	120,000	120,000
Transfer out	-	-	(100,000)	(100,000)
Total other financing sources	-	-	20,000	20,000
Net Change in Fund Balance	10,466	186,185	245,856	59,671
Fund Balance - Beginning of year	164,138	164,138	164,138	-
Fund Balance - End of year	<u>\$ 174,604</u>	<u>\$ 350,323</u>	<u>\$ 409,994</u>	<u>\$ 59,671</u>

Charter Township of East Bay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund - Fire Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 791,821	\$ 908,444	\$ 791,914	\$ (116,530)
Charges for services	51,000	51,000	44,411	(6,589)
Interest income	-	28,759	33,211	4,452
Total revenues	842,821	988,203	869,536	(118,667)
Expenditures - Public safety	788,280	800,520	766,721	(33,799)
Net Change in Fund Balance	54,541	187,683	102,815	(84,868)
Fund Balance - Beginning of year	375,709	375,709	375,709	-
Fund Balance - End of year	<u>\$ 430,250</u>	<u>\$ 563,392</u>	<u>\$ 478,524</u>	<u>\$ (84,868)</u>

Charter Township of East Bay

Note to Required Supplemental Information Year Ended December 31, 2006

Note - Budgetary Information

The annual budget is prepared by the Township supervisor, with the assistance of the Township treasurer and clerk, and adopted by the Township board; subsequent amendments are approved by the Township board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. Budgets were adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget and Major Special Revenue Fund budgets as adopted by the Township board is included in the required supplemental information.

This comparison includes expenditure budget overruns. A comparison of the actual results of operations to the nonmajor Special Revenue Fund budget as adopted by the Township board is available at the clerk's office for inspection.

The Township did not have significant expenditure budget variances.

Other Supplemental Information

Charter Township of East Bay

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Township Improvement	Budget Stabilization	
Assets - Cash and investments	\$ 119,699	\$ 100,000	\$ 219,699
Fund Balance - Reserved for			
Budget stabilization	\$ -	\$ 100,000	\$ 100,000
Township improvements	119,699	-	119,699
Total fund balance	\$ 119,699	\$ 100,000	\$ 219,699

Charter Township of East Bay

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended December 31, 2006

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Township Improvement	Budget Stabilization	
Revenue			
Franchise fees	\$ 67,612	\$ -	\$ 67,612
Interest income	2,228	-	2,228
Total revenue	69,840	-	69,840
Expenditures			
Insurance and other	500	-	500
Debt service	39,660	-	39,660
Total expenditures	40,160	-	40,160
Excess of Revenue Over Expenditures	29,680	-	29,680
Other Financing Sources - Transfers in	-	100,000	100,000
Net Change in Fund Balances	29,680	100,000	129,680
Fund Balances - Beginning of year	90,019	-	90,019
Fund Balances - End of year	<u>\$ 119,699</u>	<u>\$ 100,000</u>	<u>\$ 219,699</u>



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April 17, 2007

To the Township Board
Charter Township of East Bay

In planning and performing our audit of the financial statements of Charter Township of East Bay as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

Audit Adjustments - The audit resulted in 25 journal entries posted to adjust the Township's balances as of December 31, 2006. A majority of the journal entries were accrual/balance sheet type entries that may not be submitted to the board for review during the course of the year. Most significantly changed were the Water and Sewer Funds from an unadjusted net income of \$1,443,379 to net income of \$1,825,235. We recommend the Township consider allowing the clerk and the treasurer (those with general ledger responsibilities) to obtain additional training in order to understand the accounting required to fulfill the duties of the elected position.

We consider the following deficiencies to be significant deficiencies in internal control:

Bank Reconciliations - Bank reconciliations after June 2006 were not prepared on a timely basis due to the complexity of the cash accounts (in relation to the number of general ledger accounts included in each cash bank account and having most disbursements run through the General Fund with a duplicate reversing entry to move amounts to the appropriate fund). Bank reconciliations are required to be completed on a timely basis to provide accurate cash information for management to use in making decisions. The board is receiving a copy of the bank reconciliation and the bank statements when completed.

We recommend that a timely bank reconciliation is prepared. The treasurer should post adjustments from the bank statement (interest income and credit card deposits) back to the period it relates to - along with all other adjustments as of the end of the month being reconciled. To document timely preparation, we recommend the Township utilize the sign-off/date procedure for both the preparer and reviewer of the bank reconciliations

Property Tax Activity - During cash receipt testing, we noted that property taxes collected in the property tax receiving cash account were not recorded completely in the general ledger. In prior years, these transactions were not entered in the Fund Balance software; however, efforts have been made to enter this activity in 2006. As a result, the current treasurer was not able to reconcile this cash account to the general ledger. The property tax software (BS&A) does track cash received for property taxes and produces the amounts due to taxing authorities. We noted that all taxing authorities were paid accordingly regardless of the information being excluded from the Fund Balance software. We recommend the treasurer continue to enter all property tax information into the Fund Balance software and perform the monthly bank reconciliation timely.

Special Assessments - In 2006, a detailed listing of special assessment balances by parcel number was provided to us. However, the special assessment receivable general ledger balances did not reconcile to the detailed listing until an adjustment was made during audit fieldwork. This produced an adjustment of \$13,685 in additional revenue for the Water and Sewer Funds, due to the receivable balances not being correct for a number of years, which resulted in prior period scope limitations on the audit. As a result of the review performed by the new treasurer, these balances were identified as correct and we were able to test accordingly. In order to maintain accurate records, we recommend these receivable balances be adjusted on a regular basis to reflect cash receipts as they are collected and balances be compared to the property tax software (BS&A) on a regular basis, monthly, or at least quarterly.

Journal Entries - We noted that a supervisory review of journal entry support for reasonableness was not being performed during 2006. While the Township is now keeping some documentation for recorded journal entries, the available documentation is not adequate. For instance, there was a reclassification from the General Fund to the Agency Fund with the only documentation being a copy of the entry itself. We also noted that manual journal entries can select any type of source journal from a drop-down box when inputting into Fund Balance software and that the treasurer can post cash-related journal entries into the Fund Balance software.

Monthly revenue and expense reports are given to the board, who can identify significant changes and question them. However, a review of journal entries with adequate support is essential for strong internal controls. We recommend that the master journal entry form include support for journal entries in addition to documenting a preparer and a reviewer. As an additional control, we recommend a periodic review by the supervisor of all journal entries posted, looking at the reasonableness of the entry and who posted it.

Accounts Payable - The accounts payable general ledger balance was not accurate as of December 31, 2006 at the beginning of fieldwork. This was due primarily to checks issued during 2007 that related to 2006 expenses that were backdated in the system to reflect the expenditure in the proper period. As a result, cash and accounts payable were improperly reduced as of December 31, 2006 for the backdated checks. We obtained a listing of the backdated checks and adjusted both cash and AP to reflect the actual balances as of year end. For future year ends, we recommend the clerk maintain the listing of expenses that come in after year end but relate to the prior year (with expenditure accounts), to produce a manual accounts payable journal entry to record at December 31. This same entry can then be immediately reversed as of January 1. This will produce the correct cash and accounts payable balance effectively as of December 31.

Control Deficiencies

Debt Activity - In 2006, the new treasurer spent time investigating the debt for proper classification between Water and Sewer Funds. As a result, debt was moved to the proper Water and Sewer Funds to reflect more accurate recording of the amounts owed by each fund. This adjustment is to further reflect more accurate information on a per-fund basis. During the year, some bond payments were recorded to offset the liability, but some still were posted to expense. As a result, during the year the balance sheet was misstated. The Township is still working through understanding the difference between an enterprise and a governmental fund. As a result, showing the debt payments as an expense gave the board information on debt payments, even though it was incorrect. The Township has also spent significant time analyzing future debt payments versus cash flows. Overall, this misstatement in the balance sheet has not materially affected the Township's ability to make financial decisions.

We recommend that the treasurer reduce the proper accounts when debt payments are made for the Water and Sewer Bonds and installment purchase agreements. Principal portions should reduce the balance sheet liability accounts and the interest/fees/capacity payments should be recorded as an expense. The board should be provided with a balance sheet as well as a revenue and expense report for proper analysis of the funds at board meetings.

Further, we noted that the special assessment funds are collecting cash to pay for debt. Cash will be recorded in those specific funds and then transferred to the proper Water or Sewer Fund to help pay debt. An alternative would be to close out the specific special assessment funds and record them as line item accounts receivable balances in the respective Water or Sewer Fund.

Bank Reconciliation Differences - There were reconciliation differences maintained month to month on several bank reconciliations. These adjustments reflect errors requiring journal entries to correct the general ledger to accurately reflect cash activity in the bank. We recommend these reconciling amounts be adjusted in a timely manner to prevent future bank reconciliation differences.

Capital Asset Schedule - The Township relies on the auditor to update the capital asset schedule and calculate depreciation expense. The Township provides the additions to the auditor each year. In addition, the Water and Sewer Funds show capital outlay expense for capitalizable projects during the year. Due to the nature of the Water and Sewer Funds being enterprise funds, capital project costs should be capitalized when paid versus expensed. We adjusted these costs out of expense and into capital asset balance sheet accounts as part of the audit. As a result, the statement of activities was misstated during the year, showing inappropriate expenses and omitting depreciation expense. To correct this deficiency, the Township should consider having the clerk attend accounting training in order to take over these types of responsibilities.

Other Items

Budgets - The budget is required to include a beginning fund balance for each fund with a calculated ending fund balance based on the budgeted revenues and expenditures. In addition, a budget cannot reflect a negative (deficit) fund balance.

We also noted that for special assessment funds, the Township budgets for special assessment collections of cash as revenue for Water and Sewer Special Assessment Funds when it should decrease to the special assessment receivable. Bond principal payments for Water and Sewer Funds were also budgeted for as an expenditure when those payments should be decreasing the liability account when paid. The Township should discontinue this practice in the Water and Sewer Funds and only budget for interest payments related to special assessments.

Bank Accounts for Cash - It was noted that there is still a commingling of cash from various funds in the same bank account. For example, the Traverse City State Bank general cash account includes the General Fund, the Township Improvement Fund, and Agency and Lite Fund special assessments (considered agency funds). We recommend the Township continue to assess the cash accounts and related general ledger accounts for appropriate groupings. This could alleviate time spent on reconciliations.

Board Communication - Currently the board is only receiving a revenue and expenditure report for all funds (with budget information included). We recommend the board, at least, be provided a cash summary sheet showing all cash balances by fund at the monthly board meeting. Ideally, a balance sheet would also make sense.

Board Minutes - We noted a large number of board minute edits (i.e., on March 12, 2007, noted edits to the January 8, 2007 minutes). Edits are documented and attached to the board minutes. We recommend the Township make efforts to provide accurate minutes and question why this is happening so frequently.

IPS Submission of Payroll Information - Currently the payroll spreadsheets are faxed to IPS. There may be a more effective and efficient means of communicating this information to IPS. The Township should look into the option of online access to directly input the payroll spreadsheet information. There may also be a feature that lets the clerk enter the information, but doesn't release the information until the treasurer reviews.

This communication is intended solely for the information and use of the Township board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Sharon L. Vargo". The signature is written in a cursive, flowing style.

Sharon Vargo, CPA
Partner